

# KREAB

# Kentucky Real Estate Appraisers Board

# Newsletter



**July 2015**

**Summer Edition**



[www.kreab.ky.gov](http://www.kreab.ky.gov)

## 2015 KREAB Louisville Seminar

Friday, April 24, 2015



Pictured above from left to right: Tom Veit, KREAB Investigator; Rick Baumgardner, Chair APB; John Brenan, TAF; Scott Douglass, Fannie Mae; and Larry Disney, KREAB Executive Director.

Not pictured: Danny Wiley, ServiceLink

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### Kentucky Licensed/Certified Appraisers

<b>Certified General</b>	<b>576</b>
<b>Certified Residential</b>	<b>711</b>
<b>Licensed Residential</b>	<b>13</b>
<b>Associate</b>	<b>175</b>
<b>Total Number</b>	<b>1475</b>

### Appraisal Management Companies

<b>Total Number</b>	<b>119</b>
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# You're Invited!!



The Board Members and Staff  
Of  
The Kentucky Real Estate  
Appraisers Board  
is proud to announce their

## *25th Anniversary*

You are cordially invited to attend  
an Open House on  
Friday  
July 17th, 2015  
Immediately following the Board Meeting

Madison County Courthouse Annex  
135 W. Irvine Street, Suite 301  
Richmond, KY 40475

Beverages and Light Refreshments  
will be served

Please RSVP number of attendees  
to 859-623-1658



## KENTUCKY REAL ESTATE APPRAISERS BOARD

135 W. Irvine Street, Suite 301  
Richmond, KY 40475  
Phone: (859) 623-1658  
Fax: (859) 623-2598  
Web site: [www.kreab.ky.gov](http://www.kreab.ky.gov)

### **BOARD MEMBERS**

**HAROLD G. BRANTLEY -**  
**CHAIRPERSON**  
Appraiser Member  
Bowling Green  
Term - 11/19/2015



**THOMAS OLIVER -**  
**VICE-CHAIRPERSON**  
Lender Member  
Glasgow  
Term - 11/19/2016



**KATHY MAYFIELD -**  
Consumer Member  
Winchester  
Term - 11/19/2016



**DANN CANN -**  
Appraiser Member  
Leitchfield  
Term - 11/12/2017



**JEFF FULTZ -**  
Lender Member  
Richmond  
Term - 11/12/2017



### **STAFF MEMBERS**

Larry Disney, Executive Director  
Tom Veit, Executive Assistant  
Angie Thomas, Staff Assistant  
Kim Mathias, Executive Secretary  
Nicole Biddle, Legal Counsel

## NOTES from the KREAB Executive Director



### Support Your Opinion

During the past year the KREAB has observed issues in allegation cases and experience reviews that are troubling. The source of that trouble is an apparent misunderstanding by many appraisers, concerning the use of regression analysis and other technology driven programs that are available for supporting market derived sales adjustments.

This problem has grown recently due to an expectation for appraisers to include a detailed depth of rationale and support for each market derived adjustment reported. Although this is not a new expectation, it has created an increased demand for both qualifying and continuing education seminars that demonstrate the operation and use of statistical analysis programs that can be used for supporting adjustments.

The courses and seminars being developed today offer exciting opportunities for use by the appraisal profession. They are more affordable, provide greater reliance, and provide appraisers the opportunity to do more work in a shorter period of time than was considered possible only a few years ago.

While the advancement of technology products and tools can assist in making the above possible, there is an expectation that prior to using any tool or program, the appraiser will have mastered the knowledge and competency needed for meaningful application and results. The requirement to comply with that expectation is amplified in USPAP Standards Rule 1-1, *"In developing a real property appraisal an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal"*.

For purposes of demonstrating the problem, consider the following scenario: The subject of an appraisal report is a residential site in a subdivision with a ten (10) year old one-unit residential dwelling, also included is a one (1) year old recreation amenity, landscaping that was professionally installed, and an additional building for entertaining guests. The property owner provided information for support that

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### Continued from Page 3

Approximately one year prior to the appraisal effective date, the amenity items and landscaping collectively cost \$70,000 to build and install.

The only reference within the appraisal report for the amenities and landscaping was, “paired sales reveal the market does not recognize an adjustment for amenities”.

Absent from the report was any statement or summary to support the rationale for why the amenities and other substantial site improvements did not 1) contribute value or 2) create a loss due to functional obsolescence. When asked to comment, the appraiser answered, “The analytical program output indicated \$0.00 for amenities, therefore no adjustment was considered applicable in this market for amenities.

The KREAB staff examined the response, and the data used for analysis. It was found that the answer of \$0.00 was given total reliance on the basis of two (2) sales entries that included similar amenities. The data was not considered sufficient for calculating a statistically valid response without providing additional supporting data. Therefore, the conclusion of \$0.00 contribution was considered to lack credibility, and might also lead to a conclusion that the report was misleading.

Appraisers should recognize that when reporting \$0.00, or none, in the comparison analysis section of an appraisal report, that entry is an adjustment, therefore, it is expected the appraiser developed the opinion by collecting, verifying, analyzing, and reconciling sufficient data necessary for reporting a meaningful result. If not, the result might be found to lack credibility, and the report considered misleading.

Professional appraisers must strive for continual advancement of knowledge and skills for the purpose of remaining proficient in the appraisal of real property. To assist in achieving this objective, each Kentucky licensed and certified real property appraiser is encouraged to research the available seminars and courses, and then make a decision to complete education on the basis of content and instruction quality. Doing so, will enhance the ability to visualize, articulate, and solve both complex and non-complex problems necessary for developing credible appraisal assignment results.

Regardless of the education taken, the experience gained, or other reasoning, it is each individual appraiser’s personal responsibility to understand if she or he has mastered the skills and competency necessary for developing and reporting credible solutions for each appraisal assignment undertaken.

If anyone has questions concerning the information above, please contact the Kentucky Real Estate Appraisers Board office at 859-623-1658.



Executive Director, KREAB





# Board Actions



April 1 - June 30, 2015

**Appraiser Cases Dismissed :**

14-30      14-33      15-01

**No Final Orders**

## Investigator Report

Currently the total number of appraiser complaints submitted year to date is 24. The Grievant sources for submitting the most complaints are still the home owner and real estate sales professional. Currently, there is approximately a (6) six month turn time to process the complaints.

The total number of AMC complaints submitted year to date is 1. The primary complaint against Appraisal Management Companies is non-payment within 45 days. Currently, there is approximately a (6) six month turn time to process the complaints.

### Notice

#### Violating Standard Rule 2-3

Please be advised that appraisers are required to sign a certification acknowledging that they did or did not inspect the subject property of their assignment. It has been reported that in some cases Associate appraisers and non-licensed individuals actually inspect the subject, and the supervisory appraiser signs the certification indicating they inspected the subject when in reality they did not.

Any certified or licensed appraiser, proven to have committed this act will be dealt with accordingly by the Board. This infraction is not only a violation of Standards Rule 2-3 but it is also a violation of the Ethics Rule.

### Investigator Report

By: Tom Veit,  
Executive Assistant



# What's Your Number?

By Bryan S. Reynolds



The pioneers in our business—developers and early practitioners of the dark-art/science of valuation theory—intended for our discipline to be recognized as one of the professions, like law or accounting. Frederick Babcock, who is considered the pioneer of appraisal theory, wrote this in his book, *The Appraisal of Real Estate*, published in 1924:

*The appraising of real estate is a business to-day. There is, however, a decided tendency for real estate evaluation to become distinctly professional, and it is probable that in a short time real estate appraising will be recognized as a profession as truly as any other.*

More than a short time has elapsed since 1924, but I fear that Babcock's forecast has not yet come to pass; we still have a ways to go to meet that goal.

## What's Your Number?

When you appraise an average home in your market, what's a standard estimate of the house's total economic life? I've asked this question of appraisers around the country for years now, and I get a variety of answers, from 30 to 100 and everywhere in between.

Others respond by simply saying, "It's not in the report." I'd argue that it *should* be in the report, and in a sense, it is. The information is all there; you just need to take the final step: Add effective age and remaining economic life, and you get a sum—which equals total economic life.

Really, the answer itself isn't the most important thing. What matters is how you *got* that answer.

## Where Did You Get That Number?

The important question for appraisers is this: Where did you get your number? Or what support do you have for that number?

## Most Common Responses from Appraisers

My Supervisor

Their Supervisor

Guessed

Plucked It From Air

What My Peers Are Doing

That's Just My Opinion

Years of Experience

The comment section of Standard Rule 1-3 of USPAP states:

*An appraiser must avoid making an unsupported assumption or premise about market area trends, effective age, and remaining life.*

These responses are "unsupported assumptions," nothing more.

I'm always amazed when I question an appraiser or assessor who is a witness in a formal hearing, and they cite "years of experience" to support their conclusions. This line just doesn't cut it anymore. What if, when you were a trainee decades ago, your supervisor taught you an improper technique? You've been using this same protocol for 20 years, assuming it's a good methodology. Wouldn't you be an expert at using an improper technique by this time? You'd have "years of experience" doing something wrong, wouldn't you?

## Recognized Technique

Let's review a recognized technique to support an opinion of total economic life. Before we start the math we need to review depreciation.

Here's how the Dictionary of Real Estate Appraisal, published by The Appraisal Institute, defines depreciation:

*In appraising, a loss in property value from any cause; the difference between the reproduction or replacement cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date*

While I believe the first part of that definition should be changed, as depreciation is not always a loss in property value from any cause, the rest of that definition is spot on. I'll get into that in more detail in another article, but just think for a minute: How can you lose something you never had in the first place?

Here's another workable definition of depreciation, from page 230 of *The Appraisal of Real Estate*, by Frederick Morrison Babcock: "Accrued depreciation is the difference between the cost of reproducing the building new and its present-day value."

Keep in mind that understanding depreciation is as simple as this formula: *Cost minus value equals depreciation*.

But before we analyze a sample sale, it's important to understand the need to review several comparable sales and reconcile your findings. How often do you need to conduct this market research and analysis? Every time you do an appraisal? Of course not. Every month? No. What about every time you do your paired sales analysis? Maybe a little more often than that.

It's your judgment call. Maybe you conduct this research and analysis once a year, or twice a year. Maybe you do it whenever you feel that the market has changed enough to warrant a new analysis. However you decide how often to revisit your research, *do* revisit it. It's what professionals do.

Now, let's take a look at the math:

\$125,000 Sale Price

-\$ 25,000 Land Value (Land Value and Depreciated Site Improvements)

\$100,000 Implied Value of Improvement

\$115,000 Cost New

-\$100,000 Improvement Value

\$ 15,000 Depreciation

$\$15,000 \div 7 = \$2,143$

Dep Age Annual Dep.

$\$115,000 \div \$2,143 = 54$

Cost Dep TEL

### Reconciliation

Anytime I'm talking with a statistician, I ask how many of a sampling or data set do I need for sound results. I have heard answers as varied as 100, 60, and 31, so I suggest you analyze several sales.

Of course, you'll get different answers to the question of total economic life. The point is to hone your analytical skills and methodology so that whatever answer you get, you can offer strong reasoning to support it.

Your judgment is the sharpest tool in your appraiser's toolbox. You should reconcile your findings to an opinion of total economic life and, by the way, you also just obtained support for a condition or effective age adjustment. So the next time someone asks you, "Where did you get your number?" you can respond, "From the market."



**Bryan S. Reynolds**

is a KY/TN Certified General Real Property Appraiser, a registered agent with the TN State Board of Equalization and an AQB Certified USPAP Instructor. Mr. Reynolds has been an In-State Instructor for the International Association of Assessing Officers, IAAO, and an instructor for George K. Cox Education, an adjunct senior faculty member of The Columbia Institute, an instructor for a private Indiana educational firm and has been an approved appraisal instructor in 31 states. He has testified and appeared in various courts, planning and zoning boards as both an expert and as an agent making valuation arguments before local and state hearing officials and Administered Law Judges. He was one of two appraisers chosen by the Commonwealth of Kentucky to attend an invitation only Level One Investigator Training and sent by Tennessee for Level Two Training presented by The Appraisal Foundation/AARO. He also serves as a contract Investigator of the State of Tennessee.

Reynolds is the owner of Bryan S. Reynolds & Associates, Reynolds Appraisal Service, a partner with the ad-valorem consulting firm The Bryclan Group, [www.thebryclangroup.com](http://www.thebryclangroup.com), and a partner in [www.appraiserelearning.com](http://www.appraiserelearning.com). He provides various educational offerings, mentoring, residential and commercial valuation services, consulting and litigation support services throughout the region as well as being available for lectures and is well known for his Think Outside the "Check" Box approach.

He can be reached at [bryan@reynoldsappraisalservice.com](mailto:bryan@reynoldsappraisalservice.com), [bryan@appraiserelearning.com](mailto:bryan@appraiserelearning.com), or 270-929-3088

# Appraisers...

# AMC's

The renewal window for 2015 is closed.

Within six (6) months after the renewal date, the former certificate or license holder may be reinstated by complying with all appropriate renewal requirements and paying a late fee of \$200.

Any penalty fees incurred **MUST** be included with the renewal application.

If six (6) months or more elapse after the renewal date, the former certificate or license holder shall be required to meet all current requirements as if applying for initial certification or licensure per KRS 324A.045(3)(4).

The renewal window for 2016 is **October 1 - 31, 2015.**

## Renewal Options:

- ⇒ On-line (**preferred**)-Link to renew will open October 1, 2015 and close October 31, 2015 at midnight EST.
- ⇒ Mail (KREAB, 135 W. Irvine St., Ste. 301, Richmond, KY 40475. must be postmarked no later than October 31, 2015)

You will **NOT** be mailed a renewal form. Forms are available on our website.

All license/certificates will be **ELECTRONICALLY SENT** to the email we have on file for you.

The KREAB office must have the following at all times:



Mailing address, E-Mail address  
and Telephone number per  
KRS Chapter 324A (3).



Angie Thomas  
Staff Assistant

# Things You Need To Know...



Kim Mathias  
Executive Secretary



# Important Dates

Friday, July 3, 2015	KREAB office will be closed in observance of Independence Day
Friday, July 17, 2015	<b>Special Board Meeting</b> - KREAB office   9:00 A.M.
Friday, July 17, 2015	KREAB is celebrating 25 years! OPEN HOUSE at KREAB office   Immediately following the Board Meeting. Join us for the Board Meeting and reception. Light refreshments will be served.
Friday, August 28, 2015	Board Meeting - KREAB office   9:00 A.M.
Monday, September 7, 2015	KREAB office will be closed in observance of Labor Day
September	Board Meeting - To be determined
Friday, October 23, 2015	Board Meeting - KREAB office   9:00 A.M.
Wednesday, November 11, 2015	KREAB office will be closed in observance of Veteran's Day
*Thursday, November 19, 2015	<b>Special Board Meeting</b> - KREAB office   9:00 A.M.
Thursday & Friday, November 26-27, 2015	KREAB office will be closed in observance of Thanksgiving
*Friday, December 18, 2015	<b>Special Board Meeting</b> - KREAB office   9:00 A.M.
Thursday & Friday, December 24-25, 2015	KREAB office will be closed in observance of Christmas

***Dates and Locations of Board meetings are subject to change***